



Public Management in Times of Austerity. A Literature Review

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PUBLIC MANAGEMENT IN TIMES OF AUSTERITY: A LITERATURE REVIEW

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Abstract

This paper represents the first draft of a second chapter for a forthcoming volume on Public Management in Times of Austerity. The book focuses on the management of two austerity policies, budgetary reform and expenditure cutbacks, in five European countries. The paper presents a review of literatures on budgetary- and financial management reform and on cutback management. On this basis, a set of propositions is formulated concerning the character (the hows) of budgetary reforms and cutback management in the present age of austerity and concerning the significance of varying economic and institutional factors (the whys) to the management of budgetary reform and cutbacks. It is, for example, argued that fiscal discipline may in the short term crowd out those performance-oriented reforms that are meant to improve operational efficiency whereas in the longer term higher levels of fiscal pressure may lead to budgetary reforms that aim at improving allocative effectiveness across organizational borders in government. In this respect, the present conditions of austerity are expected to reinforce the ongoing transformation of reform trajectories from the principles of the NPM towards those of 'post-NPM' reform.

1. Introduction

This paper is intended as the second chapter in a forthcoming book on ‘Public management in Times of Austerity’. The objective of the book is to analyze and compare the management of austerity policies in five European countries (Denmark, Estonia, Germany, Ireland and Italy) and to investigate how the present age of austerity has affected public management.

The book is informed by an overall (historical) institutionalist understanding of public management and its changes. It is expected that a country’s responses to the crisis are likely to be shaped by its political and administrative institutions and the path-dependencies of existing reforms (Peters et al. 2011: 16), but it is also expected that the crisis and context of austerity may lead to a ‘punctuated equilibrium’ or to more gradual patterns of change (Peters et al. 2011, Peters 2011, Streeck & Thelen 2005). The institutionalist framework is supplemented with a contingency-based understanding of how governmental organizations react to economic pressure. It is, for example, expected that the severity and duration of the fiscal crisis contribute to explaining budgetary reforms and cutback strategies.

The book focuses on two austerity policies; *budgetary reforms* at the national level and *expenditure cutbacks* in central government. The ambition is to describe *how* five European governments have reformed their budgetary- and financial management institutions and how they have managed the cutting back of public expenditure, to explain *why* different approaches have been chosen in different countries, and to evaluate the consequences of austerity to public management.

The present chapter is meant to provide a review of the relevant literatures on budgetary reform and cutback management to serve as a starting point for the analysis of reforms and cutbacks in each country. First, we discuss how budgetary institutions are likely to be reformed in times of austerity, and why we may expect variations between countries. With regard to the *how* question, we are particularly interested in the interactions between those reforms that are motivated by fiscal discipline and those that are motivated by operational and allocative performance. With regard to the *why* question, we are interested in how each country’s reforms may be explained by environmental factors (economic and international pressure) and by national institutional factors. Second, we discuss how cutbacks are likely to be implemented in the public sector. With regard to the *how* question we are particularly interested in how cutback strategies are transformed as cutbacks are delegated down organizational hierarchies, and how cutback management relates

public management reform. With regard to the *why* question, we are interested in how economic conditions and institutional factors influence cutback management.

2. Budgetary reform

In the literature on budgeting, it is a key question whether budgetary reforms make a difference. Normative budgetary theories point out how budgetary institutions should be reformed to facilitate fiscal discipline and allocative and operational efficiency (e.g. Lewis 1952), but at the same time, political budgetary theory points to the incremental and strategic nature of budgeting that may work against the intended effects of budgetary reforms (e.g. Wildavsky 1961, Serritzlew 2005). Among international experts, it is recognized that economic cycles and political commitment play a larger role than institutions in explaining budgetary outcomes, but despite these reservations budgetary reforms are believed to have made a difference to budgetary discipline and management in OECD countries (Blöndal 2003, Schick 2001). It is thus to be expected that the crisis has fueled budgetary reforms in the effort to help governments deal with new levels of resource scarcity.

Budgetary reform can have a ‘macro-budgetary’, ‘distributive’ or ‘micro- budgetary’ character (Schick 2001). Macro-budgetary reforms are meant to strengthen fiscal discipline, distributive budgetary reforms are meant to rationalize the allocation of expenditure between programs and organizations, and micro-budgetary reform is meant to rationalize operational resource management (Schick 2001). According to John Wanna, budgetary reforms in the OECD countries from the 1980s to the 2000s have primarily been motivated by the (macro-budgetary) objective of fiscal discipline and the (micro-budgetary) objective of operational resource management whereas less emphasis has been put on reallocation (Wanna 2010: 285). This may, however, reflect the preoccupation with operational productivity that has been central to the understanding of performance in the New Public Management (van Dooren 2008), and we expect that budgetary reforms in the present age of austerity may to a larger extent be motivated by allocative effectiveness - consistent with the focus on coordination across organizational borders that is central to the ‘post New Public Management’ (Christensen & Lægreid 2007). Below, we will review the literature on budgetary reform from the perspective of fiscal discipline and from the perspective of operational and allocative performance.

2.1. Budgetary reform from the perspective of fiscal discipline

In the recent history of budgetary reform, one of the most important drivers has been the ‘macro-budgetary’ objective of strengthening fiscal discipline and curtailing public expenditure (Schick 2001). In the following we shall account for some of the main arguments in the literature that

explains macro-budgetary reform from an institutionalist perspective, and we shall consider how the literature treats the relationship between crises and macro-budgetary reform.

The literature on fiscal institutionalism focuses on ‘collective action’ problems in budgeting and on solutions to these problems from a rational institutionalist perspective (von Hagen 2007, Hallerberg et al. 2007, Hallerberg et al. 2009). The main problem concerns the *common pool problem* of public finance, referring to the argument that the total of spending-wishes from different groups typically exceeds the ‘pool’ of expenditure that society is willing to fund. The common pool problem is considered particularly large if there are many groups in the political system (von Hagen 2007: 28). The main solution offered is to centralize budgeting through reforms that may focus on three types of budgetary institutions; 1) rules concerning the transparency and comprehensiveness of budgeting 2) fiscal targets or rules, 3) budgetary procedures (Alesina & Perroti 1996, von Hagen 2007). The first category concerns whether all claims on public expenditure are made in the central budget process. The second category includes rules about budget outputs, such as balanced budget rules, or rules about maximum allowable deficits or debts. The third category are rules and norms that define the budget process. These rules may focus on decision-makers (e.g. the authority of the Ministry of Finance) or on procedural content e.g. top-down budgeting, the use of medium-term expenditure frameworks etc. The literature on fiscal institutionalism distinguishes between two modes of centralization; delegation or contracts. In the delegation approach, centralization is achieved by delegating power to a strong ‘fiscal entrepreneur’, usually the Ministry of Finance. In the contracts approach, centralization is achieved because the budgeting process starts with an agreement among the main actors on a set of binding fiscal targets. The theory predicts that the delegation approach is more functional in single-party majoritarian political systems where the same party controls the Ministry of Finance and spending ministries whereas the contracts approach is more functional in coalition governments (Hallerberg et al. 2007, Hallerberg et al. 2009).

The literature on fiscal institutionalism provides a functionalist explanation of budgetary institutions based on governments’ need to institutionalize fiscal discipline. Budgetary institutions may also be explained using other versions of the new institutionalism (Hall & Taylor 1996). For example, some elements of budgetary reform may be the result of initiation of perceivably successful countries (Raudla 2010); an explanation that fits easily within sociological institutionalism. Furthermore, historical precedents and trajectories are also likely to explain elements of budgetary reform (ibid).

2.2. Budgetary reform from the perspective of performance

In addition to fiscal discipline, budgetary reform may also be motivated by allocative effectiveness and operational efficiency. These aspects of resource management are addressed by the literature on performance management- and budgeting (e.g. Moynihan 2008, Curristine 2007, Kelly & Rivenbark 2011).

Performance Management as administrative doctrine is based on the assumptions that traditional public management is inefficient, that it can be improved, and that performance information will improve decisions and can be used to foster accountability (Moynihan 2008: 27ff). It is based on two mutually dependent reform elements; public managers should be given *more discretion* in human resources and budgetary matters, but they should be hold *accountable for measurable performance* (Moynihan 2008: 26). The emphasis on managerial discretion applies not least to operating and field units (Schick 2001: 23). In other words, Performance Management entails decentralization of decision-making competences accompanied by new accountability structures that may both hold public managers accountable to citizens and users (external accountability) or to central politicians and authorities (internal accountability) (Moynihan 2008).

Whereas performance management is concerned broadly with the combination of managerial discretion and accountability by way of performance information, performance budgeting is concerned with the use of performance information in budget processes and resource allocation (Curristine 2007). The idea is that budgetary allocations should be shaped less by detailed rules and past allocation patterns and more by performance. Curristine and the OECD distinguish between three categories: *presentational performance budgeting* (where performance information is included as background information in budget documents ect.), *performance-informed budgeting* (performance information is used to inform budget decisions indirectly) and *direct/formula performance budgeting* where allocations are tied directly to units of performance, generally outputs (Curristine 2007, OECD 2008). Performance budgeting may, for example, take the form of performance contracts between ministerial departments and agencies or of activity-based funding.

Performance considerations may also be integrated in budgeting by way of accrual accounting and appropriations. This entails that government organizations report commitments when they are incurred rather than when cash payments are made (Pollitt & Bouckaert 2011: 85). Thus, budgetary documents report the total costs of producing public services including capital depreciation costs. Accrual accounting may be understood as an element in macro-budgetary reform motivated by

fiscal discipline because it decreases the scope for misrepresenting the costs of budgetary decisions (Schick 2001). It may also be understood as an element in performance-oriented reform because it makes the productivity of public organizations comparable to other organizations. However, the introduction of accrual accounting also bears the risk of making the financial implications of budgetary decisions less readily understandable (Pollit & Bouckaert 2011).

Budgetary reforms may also be aimed at improving allocative effectiveness. Providing budgets with a program structure may be seen as a step in this direction (Cohen & Karatzimas 2014), although new classifications do not in themselves change allocation patterns (Schick 2001). The main tools for improving allocative effectiveness include evaluations, outcomes measurements, strategic planning (Schick 2001). Spending reviews may also be placed in this category.

2.3. Budgetary reforms in times of austerity – the ‘how’s’

Crises play a major role in the literature that takes the perspective of fiscal discipline. Generally, crisis and austerity are expected to lead to fiscal rules and centralization of budgetary institutions.

In the literature on fiscal institutionalism, the demand for fiscal rules and centralized budget processes come from the population. It is particularly likely to realize the benefits of reforms if it has experienced a fiscal crisis. In that case, it pushes for reforms that ‘lock in’ its desire to prevent future fiscal crises (Hallerberg et al 2009: 122).

The crisis may also be treated as an opportunity for lesson-drawing with regard to budgetary institutions. In 2010, Schick argued that the crisis questioned the credibility of ‘first-generation’ fiscal rules that rely on simple targets without distinguishing between periods of economic growth and decline. ‘Second-generation’ fiscal rules should take account of economic cycles and be based on a number of considerations with regard to the targeted parameters, enforcement mechanisms, frameworks for linking targets to budgets, inclusion of subnational authorities etc. He also argued that fiscal rules need to be supported by high-quality budget procedures, including top-down budgeting, medium-term frameworks, and a performance orientation (Schick 2010).

The literature on performance budgeting does not find a straight-forward relationship between austerity and reform (Kelly & Rivenbark 2011:9). One viewpoint is that the scarcity of resources increases the need for rational allocation and management, and this should speak for increased use of performance information (Dunsire & Hood 1989, Raudla 2013). The crisis may also represent a ‘window of opportunity’ for radical implementations of performance management (Pollitt 2010). On the other hand, scarcity may make it harder to implement performance-oriented reforms since

they can no longer be lubricated with new money (ibid). It is also possible that the conditions of crisis will focus policy-makers' attention on short-term fiscal control and discipline and crowd out their attention to longer-term reforms (Cohen & Karatzimas 2014, Cepiku & Savignon 2012). It is even possible that decision-makers will not want to pursue reforms that increase transparency with regard to the consequences of cutbacks to the level and quality of public services (Pollitt 2013).

A third possibility is that performance management will be *re-directed* from a focus on service quality to a focus on cost-reductions and productivity (Pollitt 2010). The fiscal crisis and the context of austerity could also be interpreted as a possible catalyst of a redirection from outputs-based performance management that is mainly suited for holding managers accountable for operational efficiency towards outcomes-based performance management that provides measures of the relative effectiveness of different programs and thus aids allocative decision-making.

With regard to the interactions between budgetary reforms oriented at fiscal discipline and those oriented at performance management, it may be argued that the focus on fiscal discipline is likely to crowd out those element of performance management that has to do with holding agencies accountable for output performance, particularly to an external audience, whereas it may 'crowd in' elements that have to do with evaluating the outcomes of different programs with a view to re-allocating scarce resources. Furthermore, we expect that there may be a 'phasing' element to the issue of budgetary reform; in the first and most acute phases of the crisis we expect the issue of fiscal discipline to crowd out performance management whereas we expect that policy-makers' attention may turn to performance management at later stages of the crisis.

2.4. Factors explaining variations in budgetary reform – the 'why's'

The literature points to a number of explanatory factors with regard to budgetary reform. We will consider explanations based on the economic environment of each country and explanations based on domestic institutions.

Explanations based on the economic environment

As argued above, economic crises are often regarded as a trigger for budgetary reforms aimed at improving fiscal discipline, such as stringent fiscal rules and centralized budgetary procedures (Wanna et al. 2010: 286, Hallerberg 2009, Schick 2010). We may thus expect a) that countries which have previously experienced a crisis have stringent fiscal rules and centralized budgetary processes, and b) that those countries, which have been relatively hard hit by the present crisis, have undertaken relatively radical reforms aimed at fiscal discipline.

The imposition of international rules is also an important catalyst of macro-budgetary reform (Wanna 2010: 287). This has not least been the case in those European countries that have been affected by the Maastricht Treaty and the Stability and Growth Pact. The influence of international rules has, perhaps, been strongest in countries, whose EMU membership has been in danger (such as Italy), or which have been in a process of qualifying for the third EMU stage and the Euro (such as Estonia). Since the financial crisis, the EU has adopted the Fiscal Compact that has obligated Euro countries to comply with stricter criteria. We may thus expect that c) that countries that have struggled to qualify for the EMU have more stringent fiscal rules and a more centralized budget process, d) countries that are bound by the Fiscal Compact have recently adopted more stringent fiscal rules.

Explanations based on domestic institutions

As argued above, there are several modes of centralization of the budget process. We expect that countries with single-party majoritarian types of government are more likely to rely on strong fiscal entrepreneurs, whereas countries with coalition and/or minority governments are more likely to rely on fiscal targets, particularly if the ideological distance between government parties is large.

Last but not least, we expect that budgetary reforms depend on administrative traditions and reform trajectories (Pollit & Bouckaert 2011). It may, for example, be expected that legalistic and hierarchical administrative traditions are relatively hard to reconcile with the budgetary reforms that allow managers more discretion while holding them accountable for performance. We also expect that countries with a reform trajectory based mainly on ‘maintaining’ strategies have more difficulties in developing performance-oriented budgetary reforms than those countries that have also been pursuing modernizing strategies. It may also be expected that administrative systems that are traditionally characterized by pragmatism and informalism are less hospitable to budgetary reforms that rely on codifying fiscal targets in law.

2.4. Summing up the ‘hows’ and ‘whys’ of budgetary reform

In the case studies of the book, we look for evidence concerning a number of propositions regarding the how and whys of budgetary reform. With respect to the hows we look for confirmation, disconfirmation or nuancing of general relationships between crisis, austerity and budgetary reform. With respect to the whys we look for evidence as to whether particular economic and institutional conditions are likely to lead to particular ways of budgetary reforms.

Table 1. Propositions concerning budgetary reform

<i>Propositions concerning budgetary reform in times of austerity – the ‘hows’</i>	
a. Fiscal crisis and austerity are likely to lead to macro-budgetary reforms, including second-generation fiscal rules and centralization of the budgetary process.	
b. Reforms motivated by fiscal discipline are likely to ‘crowd out’ performance budgeting in the short term, whereas in the longer term they may ‘crowd in’ performance budgeting.	
c. Reforms motivated by fiscal discipline are likely to ‘crowd out’ those elements of performance management that increase managerial discretion while holding managers accountable for performance.	
d. Reforms motivated by fiscal discipline are more likely to ‘crowd in’ elements that have to do with evaluating outcomes with a view to re-allocating scarce resources.	
<i>Propositions concerning cross-country variations – the ‘whys’</i>	
<i>The significance of the economic environment</i>	<i>The significance of domestic institutions</i>
e. Countries that have previously experienced a crisis have relatively stringent fiscal rules and centralized budgetary processes.	f. The mode of centralization of the budget process depends on the type of government. Delegation approaches are favored by majoritarian systems, while contract-based systems are favored by consensual systems.
g. Countries that have been relatively hard hit by the crisis have undertaken a relatively radical centralization of the budgetary process.	h. Administrative systems that are traditionally characterized by pragmatism and informalism are less hospitable to codification of fiscal targets.
i. Countries that have struggled to qualify for the EMU have relatively stringent fiscal rules and a centralized budget process.	j. Legalistic and hierarchical administrative traditions are relatively hard to reconcile with the budgetary reforms that allow managers more discretion while holding them accountable for performance
k. Countries that are bound by the Fiscal Compact have recently adopted more stringent fiscal rules and a more centralized budget process.	l. Countries with a reform trajectory based on ‘maintaining’ strategies are less likely to develop performance-oriented budgetary reforms than countries which have been pursuing modernizing strategies.

3. Cutback management

After 2009, governments all over Europe undertook fiscal consolidation policies that relied to a large extent on expenditure cutbacks. Other volumes have focused on the *politics* of fiscal consolidation, answering such questions as whether right-wing governments or governments with a large margin of majority were more likely to undertake radical cutbacks, whether consolidation decisions were deferred to after general elections, and whether incumbents lost elections after undertaking fiscal consolidation (Kickert & Randma-Liiv 2015, Hood et al. 2014). While we are also to some extent interested in the politics of consolidation, our main interest is in the implementation of cutbacks in central government, i.e. in *cutback management*.

Cutback management was the object of a relatively coherent stream of public administration research in the late 70s and early 80s (Levine 1978, 1985, Dunsire & Hood 1989, Bozeman, Jørgensen 1981). Since the recent crisis, a number of researchers have taken up this literature again (Raudla et al. 2015, Kickert et al. 2015, Pollitt 2010, Overmans & Nordegraaf 2014, Overmans & Timm-Arnold 2015). In the following, we shall look at the distinctions between different organizational cutback strategies and measures in this literature, and we shall consider their relationship with changes to public management itself, i.e. public management reform.

3.1. Cutback strategies and measures

The most basic distinction that emerges from the literature on cutback management is that between across-the-board and targeted cuts. Across-the-board cuts refer to cuts in equal amounts or percentages for all institutions while targeted cuts imply that some institutions or sectors face larger cuts than others (Raudla et al. 2015a). The across-the-board tactic has also been called decrementalism (Levine 1985) or cheese-slicing (Pollitt 2010). Decrementalism has the advantages of reducing decision-making costs, minimizing conflict and being perceived as equitable, but it is also criticized for not reflecting the public's needs and preferences, for penalizing efficient organizations, ignoring the varying needs of different units and for leading to decline in service levels or quality (Raudla et al. 2015a). Targeted cuts have the opposite pros and cons; they have high decision-making costs and risk stirring up conflict but they may also serve to preserve the level and quality of core services. In most of the literature, the 'targeted cuts' strategy is thought to involve a higher level of rational analysis and prioritization, and it is also argued to be based on more centralized decision-making (e.g. Kickert et al. 2015). It can, however, also not be ruled out

that the targeting of cutbacks follow from decision-making with larger elements of randomness or ‘garbage can’ traits (Raudla 2015a).

In addition to the decremental and targeted approaches, some researchers have proposed an intermediary level of analysis and prioritization. Torben Beck Jørgensen proposed distinguishing between decremental, managerial and strategic approaches, arguing that organizations are likely to proceed from one approach to the other, as the crisis deepens and the psychological climate gets worse (Jørgensen 1981). In more recent times, Pollitt has distinguished between cheese-slicing, efficiency gains and centralized priority setting (2010). Whereas cheese-slicing entails an equal distribution of cuts on the involved units, efficiency gains are based on analysis of the opportunities for rationalization and innovation in different areas. Centralized priority-setting entails that some programs are prioritized at the expense of others. This may be based on an assessment of the relative cost-effectiveness of different approaches to the same goal, and/or on strategic analysis that helps the organization distinguish between high- and low-priority tasks.

The concept of cutback strategies refers to how decisions are reached with regard to the distribution and rationalization of cuts. It does not tell us the concrete measure through which costs are reduced, whether through staff layoffs, hiring freezes or wage reductions or through savings on building maintenance or acquisitions. In our conceptualization, each cutback strategy may lead to cost reductions through different measures. For example, efficiency cuts may be based on a re-organization of work processes that reduce the needed number of staff – which may then be decreased through layoffs or hiring freezes.

Delegation of decision-making

As argued by Raudla et al. (2015a), cutback strategies can be applied at the macro or *national policy* level (when cutback decisions are taken by government cabinets) or at the *organizational level* (within individual ministries or agencies). Among the early studies of cutback management, many took the perspective of individual agencies or departments (e.g. Levine 1978, Jørgensen 1981) or that of local governments (Levine et al 1981), while a few took the perspective of national government (Dunsire & Hood 1989). There were, however, not many who paid specific attention to the question of how cutback decisions may be delegated from one level of organization to another.

Across-the-board percentage cuts at one level may entail that decisions on the implementation of cutbacks are delegated to the next level of organization (e.g. from cabinet to the ministerial level),

and in that sense it may represent a decentralization of decision-making. At the next level of organization, leaders again face the choice between different cutback strategies and measures - and so forth. In 2015, Raudla et al. explored some of the implications of this logic of delegation when they found that Ministries of Finance make their increased power more felt at the top hierarchical levels of agencies, whereas managers at lower hierarchical levels perceived that decision-making powers were being centralized to the top managers and budgetary units of their respective organizations rather than directly to the Ministry of Finance. Cutback management thus leads to a cascading dynamics of centralization at the various levels of organization in the public sector (Raudla et al. 2015b). The cascading logic of delegation may, however, depend on administrative institutions and reform trajectories. In some countries, central agencies may decide directly which measures to use at lower levels of organization (such as replacement norms) regardless of whether they use an across-the-board or targeted approach to the distribution of cutbacks.

3.2. Cutbacks and public management reform

In this context, we are not only interested in how cutback decisions are made and which measures are used but also in the relationship between cutbacks and public management reform.

Pollitt discussed the same question in 2010. He argued that both cheese-slicing, efficiency gains and centralized priority setting may lead to public management reform, albeit in different ways. With *cheese-slicing*, it is up to operational managers and professional service deliverers to find ways of reducing their budgets. This may involve the adoption of public management reforms, but these reform adoptions are somewhat decentralized. We may thus expect that cheese-slicing will lead to a variety of decentralized reforms, although it can also not be ruled out that the pressure for cutbacks will induce decentralized entities to look to each other for ideas, leading to adoption of homogenous reform elements (DiMaggio & Powell 1983). *Efficiency gains* by definition entail that savings come from more efficient ways of organizing and providing services at levels above line managers and employees (Pollitt 2010). *Centralized priority-setting* may result in ‘minimizing’ reform strategies which involve that services are not offered anymore or are drastically reduced. Furthermore, it increases the demand for reforms that increase strategic capacity in public organizations such as new decision-procedures and new calculative techniques (Pollitt 2010).

Also in 2010, Hood discussed the relationship between crisis and reforms of public services. He distinguished between three types of reform strategies: 1) re-setting of recent reforms, 2) system redesign, 3) East of Suez moments. The re-setting strategy signifies a re-orientation of recently

introduced instruments from the objective of expanding public services and improving their quality to the objectives of cost-reductions and productivity improvements. The redesign strategy involves more radical re-organizations or re-designs of services, and the East of Suez moments concerns decisions to terminate programs in order to focus scarce resources on other programs.

In 2014, Hansen & Kristiansen combined Pollitt and Hoods' typologies in one typology. The idea was that we need to reflect on cutback strategies both on a dimension related to how change decisions are made, and on one related to the logic and content of the strategies. The typology thus combines whether the process of change is incremental, managerial or strategic and whether strategies are anchored in a cost-saving logic, a reorganization logic or a programme logic. Incremental processes of change are defined as minor adjustments, managerial processes are defined as the re-engineering of public organizations in order to increase productivity, and the strategic processes are defined as radical reprioritisations. On the other dimension, using a cost-saving logic means making decisions on levels of cost-savings and afterwards discussing how to implement these. Using a reorganization logic means making decisions on organizational reform under the belief that organizing differently can redeem savings. Finally, using a programme logic means responding to cutbacks through changing programmes, services, regulations and inspection procedures. As shown in Table 2, thinking along these lines reveals nine different strategies:

Table 2: Cutback strategies

<div> <div>Logic of strategies</div> <div>Process of change</div> </div>	Cost saving logic	Reorganization logic	Programme logic
Incremental	1. Incremental cost savings	4. Resetting reform elements from the past to an age of fiscal consolidation	7. Marginally changing programmes, welfare services and inspection routines
Managerial	2. Assessing potential for savings or efficiency gains through business cases	5. Intra- and inter-organizational reorganization through rationalising work procedures	8. Innovating programmes, welfare services and inspection routines
Strategic	3. Substantial savings	6. Systems redesign	9. Strategic prioritizing and cutting away (ineffective) programmes, services and regulation

			regimes
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Source: Hansen & Kristiansen (2014a: 232)

In practice the nine strategies are not independent. Politicians may for instance decide to cut back the budgets of ministries by 5% using strategy 1: cheese-slicing. If politicians do not decide how the cuts have to be implemented, ministries may choose to implement the political decision in distinct ways. Maybe one ministry takes the cutback using strategy 2 implementing business cases, while another one reorganises through merging agencies aiming at profiting from large-scale benefits, thus using strategy 5. And a third ministry may take the cutback by cutting away a programme, which has proven to be ineffective, thus using strategy 9. In this context strategies may transform from decision to implementation.

A similar but somewhat simpler typology has been presented by Overmans & Nordegraaf in a review of the literature on austerity management (Overmans & Nordegraaf 2014) and by Overmans & Timm-Arnold in an analysis of austerity management in local authorities in the Netherlands and Nordrhein-Westphalen (Overmans & Timm-Arnold 2015). In the latter publication, a distinction is made between four types of austerity measures; fiscal cuts, fiscal change, organizational cuts and organizational change. ‘Fiscal cuts’ refer to across-the-board measures, termination of third-party grants, etc., ‘fiscal change’ refers to raising taxes and fees, extending depreciation periods etc., ‘organizational cuts’ refers to ending policies or reducing levels of services, and ‘organizational change’ refers to optimizing work processes, merging units or changing modes of delivery (e.g. through digitalization). Particularly the latter category of ‘organizational change’ seems to involve changes to the organization and processes of public management.

3.3. Cutback management in times of austerity – the ‘hows’

As argued above, cutback management may be analyzed by distinguishing between different cutback strategies (across-the-board, efficiency gains, targeted) and measures (e.g. layoffs, wage reductions), and we may expect cutbacks to be implemented in ways that lead to more or less organizational change.

Governmental organizations are likely to be managing cutbacks more or less continually as they are required to finance expenditure in some areas by reductions in others. However, we may expect their adopted strategies and measures to reflect the context of austerity. For example, Levine argued that as the situation of fiscal stress grew more long-term and severe in local police departments, more radical approaches became workable, and the demand for strategic capacity increased (Levine

1985). Also, Jørgensen presented a 3-stage model of cutbacks, arguing that as the crisis grows longer and deeper, organizations will move from decrementalism to managerialism and strategic prioritization (Jørgensen 1981). The empirical evidence is somewhat mixed when it comes to the stages model (Raudla 2015, Pollitt 2010, Dunsire & Hood 1989), but it is still an influential model. Recently Kickert and Randma-Liiv found that the size and speed of cutbacks increased in subsequent phases of consolidation between 2007 and 2012, and that decision-making changed from across-the-board to targeted and priority-setting strategies.

We will thus take our point of departure in the expectation that cutback management is likely to be dominated by across-the-board strategies in the short term, whereas in the longer term cutbacks are more likely to be based on efficiency gains and strategic priorities. We also expect that austerity increases the likelihood that cutbacks are implemented through strategies that imply change to public organizations or programs.

3.4. Factors explaining variations in cutback management – the ‘why’s’

In the following, we will focus on reasons to expect varying approaches to cutback management based on the economic environment of each country and on domestic institutions.

Explanations based on the economic environment

It may be expected that the choice of cutback strategy will depend on the severity and duration of the economic and fiscal crisis in each country.

First, the *volume* of cutbacks is likely to depend on the financial-economic situation; severe crises lead to large budget deficits that must be handled through large consolidation plans and cutbacks (at least in the European context where large deficits and debts are a matter of EU intervention) (Kickert & Randmaa-Liiv 2015: 160).

Second, the stages logic of cutback management implies that the level of fiscal pressure gets progressively worse over time. This is not necessarily true in all our cases. In some countries, the crisis has progressed from an ‘acute’ phase right after the financial and economic crisis in 2009 to more stable situation. It may either be expected that the progression from acute crisis to stable conditions leads to a ‘retreat’ from radical and targeted cuts towards more incremental approaches, or it may be expected that it leads to a progression from across-the-board cuts to a more permanent condition of austerity characterized by continuous efficiency-based or strategic cutbacks.

Explanations based on domestic institutions

In the political science literature, it is a common assumption that majoritarian systems with single-party governments are more able to reach quick and far-reaching decisions than multi-party coalitions (Lijphardt xx, Kickert & Randma-Liiv 2015:162). In the context of cutback management, this leads to the expectation that majoritarian governments are more likely to carry out swift, large and targeted cuts. Furthermore, within the category of coalition governments, those with a grand majority can be argued to be more likely to carry out large cutbacks than those with normal majorities or a minority (Kickert & Randma-Liiv 2015: 173).

Organizational factors can also be used to explain the choice of cutback strategy. For example, it may be argued that organizations with many fixed functions are more likely to focus on cutting overhead costs and constraining labor costs, whereas organizations with more flexible functions are more likely to target its resources towards a narrower scope of activity (Raudla et al. 2013). It may also be argued that the choice of approach may depend on the availability of strategic capacity (Levine 1985), or that organizational models with more centralization and less politicized leadership are more able to adopt a long-term strategic approach (Levine et al. 1981.).

Focusing on the influence of administrative structures and tradition, Overmans & Timm-Arnolds used a comparison of German (Nordrhein-Westphalian) and Dutch municipalities to argue that the combination of higher degrees of control over local finances and a Rechtsstat administrative culture made German municipalities more inclined to focus on the revenue side in austerity management, whereas the combination of low levels of local discretion and a more open and pluralistic administrative culture made Dutch municipalities more inclined to choose expenditure cutbacks that involve organizational change (Overmans & Timm-Arnold 2015).

Using Pollitt and Bouckaert's conceptualization of state structures (Pollitt & Bouckaert 2011), it may furthermore be argued that governments of states with high degrees of vertical decentralization are likely to delegate cutback decisions to local governments (and agencies?) whereas governments in unitary and centralized states are more likely to impose targeted cuts on the central administration. Last but not least, it may be argued that horizontal fragmentation of the state (e.g. because of a strong 'resort principle' of ministerial government) is likely to favor 'across-the-board' strategies, whereas horizontal centralization is likely to make targeted cuts more workable.

3.5. Summing up the hows and whys of cutback management

In the book's case studies, we will be looking for evidence concerning the following propositions concerning the general characteristics of cutback management in times of austerity and concerning the factors that lead to variation between countries.

Table 3. Propositions concerning the hows and whys of cutback management

<i>Propositions concerning cutback management in times of austerity – the ‘hows’</i>	
a. The conditions of fiscal crisis and austerity are likely to lead to cutback management that is dominated by across-the-board strategies in the short term, whereas in the longer term cutbacks are more likely to be based on efficiency gains and strategic priorities	
b. The conditions of crisis and austerity increase the likelihood that cutbacks are implemented in ways that imply changes to governmental organizations and programs.	
<i>Propositions concerning cross-country variations – the ‘whys’</i>	
<i>The significance of the economic environment</i>	<i>The significance of domestic institutions</i>
c. Governments that have been relatively hard hit by the financial and economic crisis are likely to have implemented relatively large cutbacks.	d. Majoritarian types of governments are likely to have implemented large and targeted cutbacks. The same applies, if a coalition government has a large majority, and the ideological distance between government parties is small.
e. In countries, where the crisis has grown progressively more severe over time, we are likely to see a progression from across-the-board towards targeted cuts.	f. Countries with vertically decentralized state structures are likely to delegate across-the-board cuts to local governments and/or agencies.
g. In countries where the crisis has not progressively more severe we may either see a retreat towards incremental approaches. Alternatively, the crisis may give way to more permanent austerity policies characterized by efficiency-based or strategic cutbacks.	h. Countries with horizontally decentralized state structures are likely to use across-the-board strategies, whereas horizontal centralization favors strategic prioritizations.
	i. Cutback management is more likely to be based on organizational reform, if the country has a pragmatic (rather than legalistic) administrative tradition and/or a ‘modernizing’ reform tradition.

4. Conclusion

Austerity may be understood as a set of policies that governments pursue in response to the financial, economic and fiscal crisis that has affected most countries since 2008. In this volume we look less at the politics of austerity and more at the role of public management in implementing austerity policies such as budgetary reform and cutback management. We ask how the budgetary reform elements that are motivated directly by the political-economic concerns of fiscal discipline in a context of crisis interact with those budgetary reform elements that are motivated by the more managerial concerns of operational and allocative performance in governmental organizations. We also ask how political cutback ‘packages’ are implemented in governmental organizations, how cutback decisions are delegated down organizational hierarchies, and under which conditions cutbacks lead to organizational and programmatic change.

We expect that the crisis will lead to macro-budgetary reforms that include centralization of budgetary preparation, decision-making and implementation, and we expect that those reforms will crowd out performance-oriented reforms that are meant to improve operational efficiency by increasing managerial discretion and holding managers responsible for service outputs. On the other hand, we expect that higher levels of fiscal pressure may in the longer term lead to a new round of reforms that aim at improving allocative effectiveness across organizational borders in government. This development is consistent with the ongoing transition from New Public Management to post-New Public Management in public administration, since the NPM may primarily be seen as a reform paradigm that is meant to improve operational efficiency in public organizations whereas post-NPM lays more emphasis on coordination of governmental resources and programs organizational borders (Christensen & Lægreid 2007). This would lead us to prophesize that the present times of austerity will probably not become a punctuated equilibrium in the history of administrative reform; the more likely scenario is that it will reinforce the ongoing gradual transformation of NPM-inspired reform trajectories towards post-NPM reforms.

We also expect that the expenditure cutbacks will probably be handled through across-the-board strategies in the short run (parallel to the short-run focus on fiscal discipline in budgetary reform), while the long-run management of cutbacks may be based more on considerations of performance. This type of cutbacks is also more likely to lead to changes of governmental organizations and programs (e.g. modes of delivering services).

The book's chapters on budgetary reform and cutback management are meant to test these expectations and to elaborate on the relationship between austerity and different elements of budgetary reforms and cutbacks. They are also meant to make us wiser as to how budgetary reforms and cutback strategies in each case are conditioned by their economic environment and by political and administrative institutions.

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